

MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 10.00 am on 8 February 2019 at Ashcombe Suite, County Hall, Penrhyn Road, Kingston upon Thames, Surrey, KT1 2DN.

These minutes are subject to confirmation by the Committee at its next meeting.

Elected Members:

- * Tim Evans (Chairman)
- * Mr Ben Carasco (Vice-Chairman)
- * Ayesha Azad
- * John Beckett
- * Mr David Mansfield
- * Hazel Watson

Co-opted Members:

- * Mr Tony Elias, Borough/District Representative
- * Borough Councillor Ruth Mitchell, Hersham Village
- * Margaret Janes, Employers
- Philip Walker, Employees

In attendance

- *Graham Ellwood, Vice-Chairman of the Local Pension Board

1/19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Philip Walker (Employee representative).

2/19 MINUTES OF THE PREVIOUS MEETING: 16 NOVEMBER 2018 [Item 2]

The Minutes were approved as an accurate record of the previous meeting.

3/19 DECLARATIONS OF INTEREST [Item 3]

There were none.

4/19 QUESTIONS AND PETITIONS [Item 4]

Six questions were received from members of the public. Responses to these can be found as an annex to these minutes.

Supplementary questions were asked from three members of the public and it was agreed that a response to the supplementary question from Pat Smith would be provided outside of the meeting.

It was agreed that responses to submitted questions would be provided in advance of public meetings going forward.

5/19 PENSION FUND COMMITTEE FORWARD PLAN [Item 5]

Resolved:

The Committee reviewed its Forward Plan.

6/19 COMPANY ENGAGEMENT AND VOTING [Item 6]

Declarations of interest:

None

Witnesses:

Jane Firth, Head of Responsible Investment, Border to Coast Pension Partnership

Neil Mason, Head of Pensions

Key points raised during the discussion:

1. The Committee were informed that a resolution had been passed with BP shareholders in line with responsible investment and that a review of governance processes was being undertaken before further co-resolution with other funds would be put forward.
2. There was a discussion around the impact of responsible investment and voting by shareholders if this was undertaken as a group through Border to Coast. It was explained that this would make a substantial difference and that by appointing Robeco there was much better access to chairmen and chief executive officers. Committee Members were also informed that the Surrey Pension Fund were part of a sub-group which would look at climate change going forward.
3. The Board requested further detail on share voting and resolutions made on behalf of the Surrey Pension Fund be included in future update reports.

Actions/ further information to be provided:

The Board to receive further detail on share voting and resolutions made in future reports to the Committee.

Resolved:

1. That the main findings of the report; the outcomes achieved for quarter ending 30 September 2018 by Robeco and LAPFF, by engaging with multinational companies on various Environmental, Social and Governance Issues (ESG) were noted by the Committee.
2. That the findings from Surrey Pension Fund's share voting process for the quarter ending 31 December 2018 were noted.

7/19 LOCAL BOARD REPORT [Item 7]

Declarations of interest:

None

Witnesses:

Graham Ellwood, Vice-Chairman, Local Pension Board
Neil Mason, Head of Pensions

Key points raised during the discussion:

1. The Committee received a summary of key highlights from the Local Pension Board Vice-Chairman from its meeting of 17 January 2019.
2. It was noted that serious administration errors had been identified and that a four year strategic plan had now been put in place.
3. The Committee were reminded that the Assistant Director for Business Operations had responsibility for the administration of pensions and that he was working with the Surrey Pension Fund to resolve the identified issues.
4. The Committee raised concerns that the data quality administration errors could have a financial impact and were informed that the Head of Pensions was not aware of an impact on the Pension Fund, but that the Fund had lodged a query with the Fund actuary, who will be able to provide clarity going forward with their assumptions.
5. Members of the Committee queried how the profound weaknesses had not been detected sooner and were informed that the establishment of the Local Pension Board had been a key factor in identifying these working alongside Internal Audit.
6. It was requested that a detailed report be presented to the June meeting of the Surrey Pension Fund.

Actions/ further information to be provided:

A report with further detail on the identified issues be presented to the next meeting of the Surrey Pension Fund Committee in June 2019.

Resolved:

That the Pension Fund Committee;

1. Noted the report and particularly issues with pensions administration.
2. Approved the following changes to the Fund risk register:

- Amendments to the following risks, chiefly to reflect updates in regards to Border to Coast:
- 1-2, 4-8, 11, 13-15, 17-20, 23-24, 27.

The addition of the following risks:

- Transition of assets to BCPP be included as risk number 29, with a total risk of 40 (Red) and net risk of 10 (Green).
 - The HM Treasury and Scheme Advisory Board cost management process has an implied increase in employer contributions be included as risk number 30, with a total risk of 28 (Amber) and net risk of 7 (Green).
 - Impact of the Pension Services Manager leaving the council be included as risk of 31, with total inherent risk of 21 (Amber) and Residual risk of 7 (Green).
 - Failure to deliver accurate and effective pension administration be included as risk of 32, with total inherent risk of 36 (Red) and Residual risk of 18 (Amber).
3. Concluded that a detailed report from the Local Pension Board be presented at the next meeting of the Surrey Pension Fund Committee in June 2019.

8/19 TRAINING POLICY [Item 8]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions

Key points raised during the discussion:

1. Members of the Committee welcomed the Training Policy and requested that details of seminars taking place should be circulated to the Committee and should also be fed into the training plan.

Action/ further information to be provided:

None.

Resolved:

That the Pension Fund Committee:

1. Approved the training policy and agreed that all members should prioritise attendance at training events wherever practicable.

2. That training is reviewed on an annual basis.

9/19 CASHFLOW ANALYSIS [Item 9]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions

Key points raised during the discussion:

1. Members of the Committee were informed that there would be a report from the actuary at the next meeting of the Surrey Pension Fund Committee and that following this this information may be reported annually rather than quarterly.
2. It was noted that there was an error in the submitted report and that the report related to quarters two and three.

Actions/ further information to be provided:

None.

Resolved:

The Pension Fund Committee noted the cash-flow position for quarters two and three which confirmed that no further action was required and no changes to the Investment Strategy would be required.

10/19 INVESTMENT STRATEGY STATEMENT [Item 10]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions
Steve Turner, Partner, Mercer

Key points raised during the discussion:

1. Committee Members noted the changes to be made to the Investment Strategy Statement and queried whether the format of this could be reviewed to avoid this having to be approved as frequently as it was currently.
2. It was confirmed that the Strategy must be approved annually by the Committee however the format of this could be reviewed so that it would be a broad statement of the areas that the Surrey Pension Fund invests in. It was agreed that this would be reviewed going forward.

Further action/ information to be provided:

That the format and content of the Investment Strategy Statement be reviewed.

Resolved:

That the Pension Fund Committee approved the following changes to the ISS that have been made following the Pension Fund Committee meeting of 16 November 2018:

1. The changes to job titles and frequency of Local Board meetings.
2. The change in the Environmental, Social and Governance (ESG) policy to support and, where relevant, comply with the Border to Coast Pension Partnership (BCPP) Responsible Investment Policy. The BCPP Responsible Investment Policy was revised in November 2018 and is reproduced as Appendix C in the amended ISS.
3. The change in the Policy of the exercise of rights (including voting rights) attaching to investments to support the BCPP Corporate Governance and Voting Guidelines. The BCPP Corporate Governance and Voting Guidelines were revised in November 2018 and are reproduced as Appendix D in the amended ISS.
4. Addition of Glenmont Clean Energy Fund Europe III to the list of Private Equity Managers.
5. Inclusion of UK Base Rate as benchmark for Ruffer, and inclusion of Fund's target return of +3% (gross of fees) over 3 year rolling periods against UK Base Rate.

**11/19 INVESTMENT MANAGER ISSUES AND PERFORMANCE
ASSET/LIABILITIES UPDATE [Item 11]**

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions
Steve Turner, Partner, Mercer
Sam Wreyford, Mercer
Anthony Fletcher, Independent Advisor

Key points raised during the discussion:

1. The Committee were pleased to note that the equity protection policy was working exactly as expected. It was also noted that quarter four

had been the worst in ten years however the markets had now rebounded. Members queried how well the investments had recovered since quarter four and the longer term impact of this and were informed that some headway had been made against any losses.

2. The Committee queried what impact Brexit would have on the Fund's investments and were informed that there were no concerns from an asset perspective.
3. It was noted that the Fund's Investment consultant Mercer, felt that the Surrey Pension Fund was in a good position and the Independent Advisor reflected that the markets may not be stable however it should not be as volatile as in quarter four.

Actions/ further information to be provided:

None.

Resolved:

That the funding level as at 31 December 2018 was 93.3%. That the Fund's investment performance for the quarter ending 31 December 2018 was - 3.4%.

12/19 EXCLUSION OF THE PUBLIC [Item 12]

Resolved: That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part 1 of Schedule 12A of the Act.

PART TWO – IN PRIVATE

**13/19 INVESTMENT MANAGER ISSUES AND PERFORMANCE
ASSET/LIABILITIES UPDATE [Item 13]**

Declarations of interest:

None.

Witnesses:

Neil Mason, Head of Pensions
Steve Turner, Partner, Mercer
Sam Wreyford, Mercer
Anthony Fletcher, Independent Advisor
Daniel Booth, Chief Investment Officer, Border to Coast Pension Partnership

Key points raised during the discussion:

1. The Committee were provided with an update on the performance of diversified growth funds and a discussion around whether a move out of this area would be supported took place.
2. The Independent Advisor provided an update on the performance of individual investment managers and Members were disappointed to note the performance of Aviva.
3. It was noted that the recent transfer to Border to Coast Pension Partnership (BCPP) had gone well during a difficult time and Committee Members were informed that a range of alternative investment options were being created by Border to Coast that the Surrey Pension Fund would be able to invest in going forward.
4. The equity protection strategy was discussed and it was confirmed that this would be formally reviewed at the Pension Fund Committee meeting in September 2019.

Further action/ information to be provided:

None.

Resolved:

That the funding level as at 31 December 2018 was 93.3% and that the Fund's investment performance for the quarter ending 31 December 2018 was -3.4%.

14/19 NATIONAL POOLING UPDATE [Item 14]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions
Daniel Booth, Chief Investment Officer, Border to Coast Pension Partnership
Steve Turner, Partner, Mercer
Sam Wreyford, Mercer
Anthony Fletcher, Independent Advisor

Key points raised during the discussion:

1. The Chief Investment Officer provided an overview of the Border to Coast Pension Partnership (BCPP) and the equity funds that will be available to the Surrey Pension Fund.
2. There was a discussion around the plan for transitioning further funds to BCPP and the Committee were informed that the next available transition would take place in July or September and that further

information regarding this would be presented at the June 2019 meeting of the Surrey Pension Fund Committee.

3. It was noted that at its meeting of 16 November 2018, the Committee had approved the delegation of authority to the Director of Finance, in consultation with the Chairman of the Pension Fund Committee, to transition the active global equity portion of the Surrey Pension Fund portfolio to the BCPP national pool when its design has been established to the satisfaction of officer and Fund Adviseros and assuming that the “necessary conditions” of governance have been satisfied and that the Committee had also approved (subject to meeting necessary conditions prior to launch) a 2019 commitment consistent with the Surrey Pension Fund target asset allocation to Private Equity within the BCPP Alternatives Investment proposition. It was confirmed that any additional allocations would be undertaken in line with the Surrey Pension Fund’s local strategies.
4. Members of the Committee queried whether the pooling had derived any savings to date and were informed that it was too early to tell but that there had been savings in basis points and performance fees no longer had to be paid. It was noted that the pooling arrangement had also allowed access to more experienced areas of equity.

Actions/ further information to be provided:

None.

Resolved:

The Pension Fund Committee noted the pooling update report.

15/19 PUBLICITY OF PART 2 ITEMS [Item 15]

The Committee agreed that the Part 2 items remain confidential and restricted from the public. It was further agreed that future reporting should avoid the use of sensitive information where possible.

16/19 DATE OF NEXT MEETING [Item 16]

The Committee noted that the next public meeting is due to take place on 7 June 2019.

Meeting ended at: 12.45pm

Chairman

SURREY PENSION FUND COMMITTEE – 8 FEBRUARY 2019

PROCEDURAL MATTERS – QUESTIONS

1. Question submitted by Chris Neill

As a Surrey resident concerned about climate change, I was shocked to discover that the Surrey Pension Fund has £145 million invested directly in the fossil fuel industry. At a time of serious climate emergency I find this very difficult to understand. It seems quite irrational. Please would you explain why you are persisting with such investments and in particular how you reconcile this approach with your responsibilities as public servants.

2. Question submitted by Stephen McDonald

150 species become extinct every single day as a resultant of our society's continued use of fossil fuels. This is just one statistic among many others that warn us of the rapidly approaching break down of our earth's ecosystems with the consequential horrendous effect it will have on our children and grandchildren.

The United Nations have told the world to make immediate and massive reductions in our FF usage, but the SPF still have well over £ 100 million invested in them, even after over three years of lobbying. We must take heed of what the UN says or, quite seriously, our world will be lost.

My passionate ask of you is please, for the sake of our future, why will you not take urgent steps to take all direct funds out of fossil fuels?

3. Question submitted by Pat Smith

The Universities Superannuation Scheme recently wrote, in response to a member's question:

- *The Ombudsman is saying that the benefit of members is generally their financial interest, but they are also recognizing that the interest is represented by members' views and moral issues. Thus, **the Ombudsman itself is recognizing that the strict financial approach to fiduciary duty is not a dogma**, and I agree with you that it could be leveraged to ask for a survey of members concerning climate change, cluster bombs, tobacco, etc.*
- *I think that climate change (and other env-social issues with a long term material impact) may be leveraged to show that **USS is not taking into consideration the interest of future members but only the short term return for current members**.*
- *But I believe that first and foremost **it's the case to dismantle the myth of fiduciary duty as purely financial**, which I think is already happening with the latest intervention of the law commission.*

How do you plan to change your interpretation of fiduciary duty and move towards rapid divestment from the fossil fuel industry?

4. Question submitted by Jonathan Roberts

The Surrey Pension Fund, in response to previous questions, has stated it supports engagement rather than divestment as a means to addressing climate change. Please could you provide details of the engagement strategy being pursued with Exxon, Shell, Total and BP with respect to the urgent climate crisis? What are your goals for this engagement process, what assessment has been made of their progress towards these goals and what action will you take if these goals are not met?

5. Question submitted by Jay Ginn

Since the fiduciary duty allows consideration of social and environmental issues as well as attention to performance and risk to members pensions, and given that financial experts have highlighted the risk of fossil fuel investments becoming stranded assets, as well as preventing the UK meeting its agreed carbon emission target, will the SCC now urgently commit to divestment from fossil fuels?

Engagement with oil companies has brought only trivial change, and I believe the majority of scheme members would support such divestment.

6. Question submitted by Leonard Beighton

In their recent statement the trustees said that consideration is given to environmental, social and governance issues 'where ever appropriate'. When is it not appropriate to take account of the catastrophic damage to the world's eco-systems which climate change will bring unless every effort to limit it is taken? Do the trustees accept that disinvestment from fossil fuel companies need not affect the financial performance of the fund and hence would not only meet the relevant ESG issues but be consistent with their fiduciary responsibilities.

COMBINED RESPONSE TO QUESTIONS RECEIVED:

Thank you for your questions, as set out in previous responses to public questions to this Committee, the Surrey Pension Fund's approach to the issue of climate change and engagement is set out in its Investment Strategy Statement which can be found, alongside other key policy documents, on the Surrey Pension Fund's website <http://www.surreypensionfund.org/client-area/news/the-surrey-pension-fund-and-esg-issues/>

The Surrey Pension Fund Committee regularly reviews its Investment Strategy Statement and an update to this is due to be considered and approved at the meeting today.

As questions on this matter have been asked at several other Surrey Pension Fund Committee meetings, I would also refer you back to the formal responses previously provided to public questions at these meetings.

Mr Tim Evans
Chairman of the Surrey Pension Fund Committee
8 February 2019